



# OECD ECONOMIC OUTLOOK

*Better, but not good enough*

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[www.oecd.org/economy/economicoutlook.htm](http://www.oecd.org/economy/economicoutlook.htm)  
ECOSCOPE blog: [oecd ecoscope.wordpress.com](http://oecd ecoscope.wordpress.com)



# Key messages

## Global growth expected to pick-up modestly with upside risks

- Confidence is increasing and investment and trade are picking up from low levels
- Growth is broad based; recovery in commodity producers helps the modest global upturn
- Signs of rising demand for high-tech goods and investment to upgrade capital

## Productivity and wage growth remain subdued; financial stability risks persist

- Headline employment indicators are improving but labour markets have not recovered
- Financial risks from high and rising credit growth, house price increases, interest rate gaps

## More needs to be done to share the gains from structural trends and trade

- Changes to technology, consumer preferences and trade are occurring simultaneously
- Job losses from shifts in activity are concentrated in manufacturing and specific regions

## An integrated policy approach is needed to make globalisation work for all

- A more level playing field for the international system
- Domestic reforms to boost competition, job creation, skills and innovation
- Targeted policies to help people who are left behind seize new opportunities



# Global GDP growth should pick up modestly but remains below historical norms

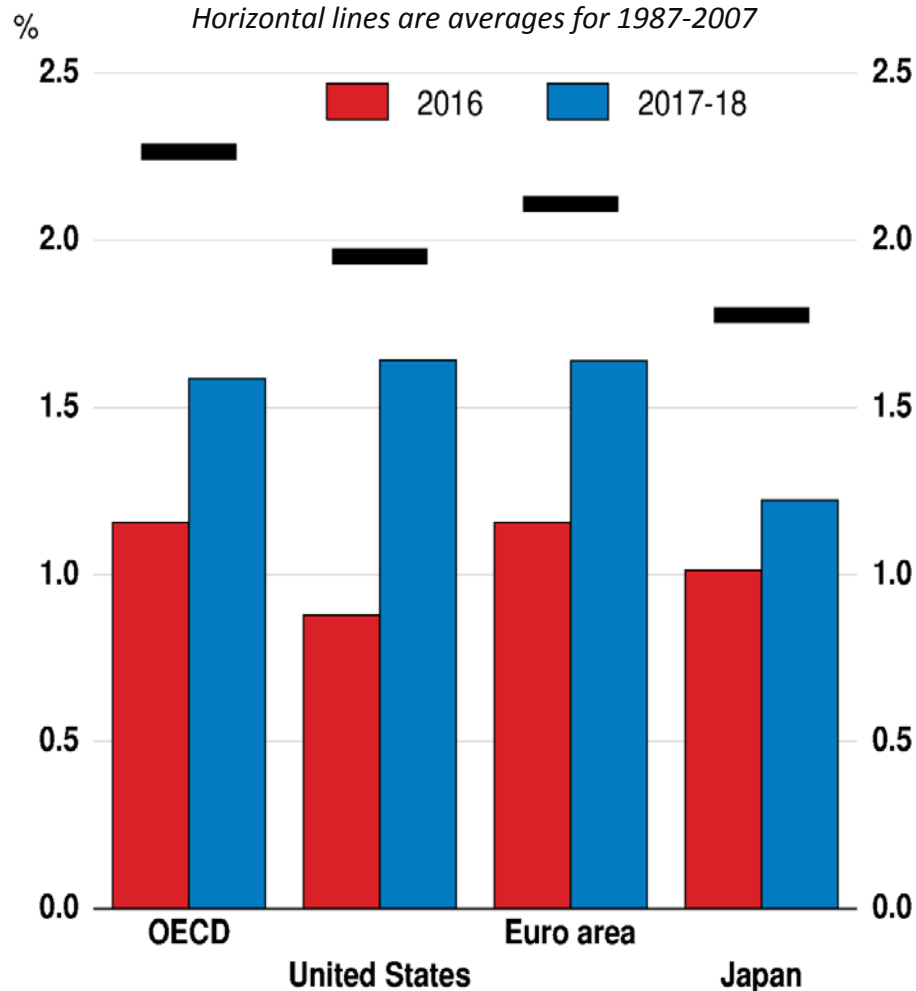




# GDP growth per person is below history and income inequality continues to rise

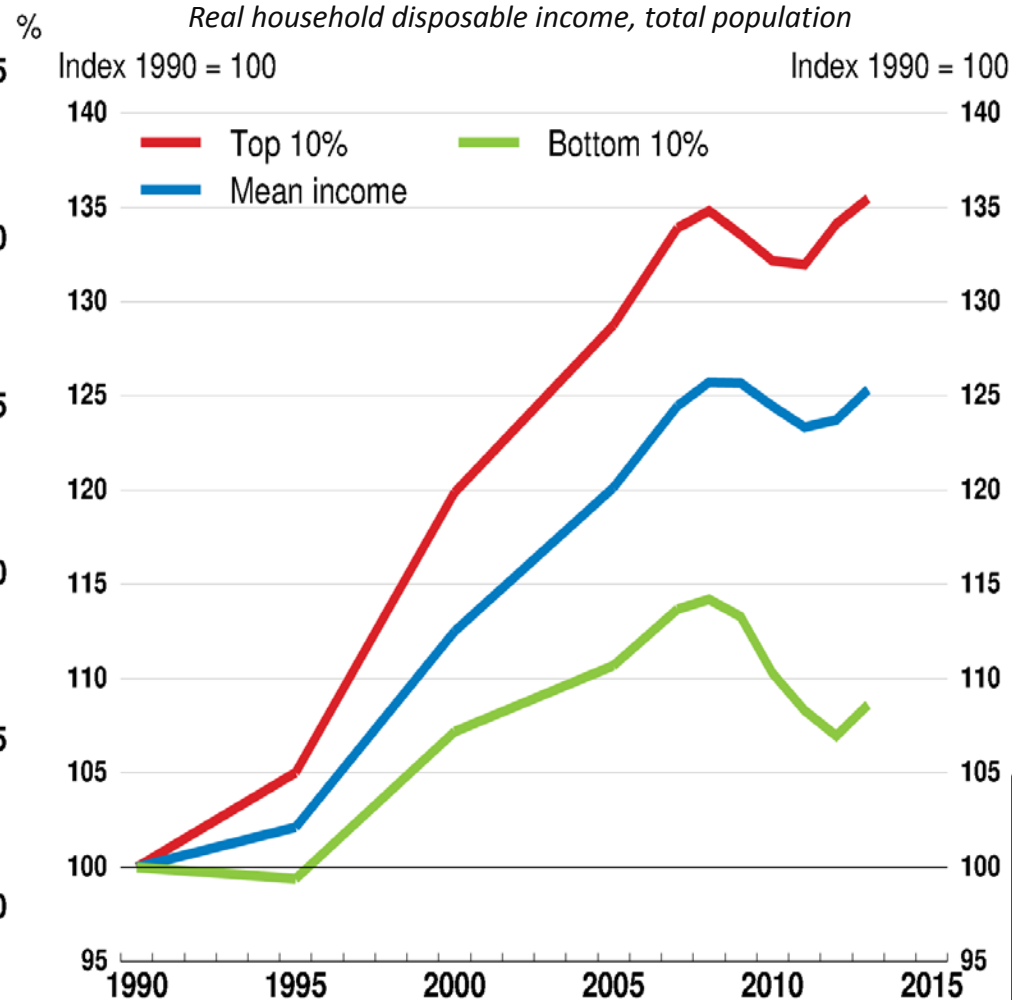
## GDP growth per person

Horizontal lines are averages for 1987-2007



## Income inequality is rising in the OECD

Real household disposable income, total population



Note: RHS is the unweighted average of 17 OECD countries.

Source: OECD June 2017 Economic Outlook database; and OECD Income Distribution database.



# OECD Economic Outlook Projections

	<b>Real GDP growth</b>			
	<i>Year-on-year, %</i>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>World<sup>1</sup></b>	<b>3.1</b>	<b>3.0</b>	<b>3.5</b>	<b>3.6</b>
<b>United States</b>	<b>2.6</b>	<b>1.6</b>	<b>2.1</b>	<b>2.4</b>
<b>Euro area<sup>1</sup></b>	<b>1.5</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>
<b>Germany</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>
<b>France</b>	<b>1.2</b>	<b>1.1</b>	<b>1.3</b>	<b>1.5</b>
<b>Italy</b>	<b>0.7</b>	<b>1.0</b>	<b>1.0</b>	<b>0.8</b>
<b>Japan</b>	<b>1.1</b>	<b>1.0</b>	<b>1.4</b>	<b>1.0</b>
<b>Canada</b>	<b>0.9</b>	<b>1.4</b>	<b>2.8</b>	<b>2.3</b>
<b>United Kingdom</b>	<b>2.2</b>	<b>1.8</b>	<b>1.6</b>	<b>1.0</b>
<b>China</b>	<b>6.9</b>	<b>6.7</b>	<b>6.6</b>	<b>6.4</b>
<b>India<sup>2</sup></b>	<b>7.9</b>	<b>7.1</b>	<b>7.3</b>	<b>7.7</b>
<b>Brazil</b>	<b>-3.8</b>	<b>-3.6</b>	<b>0.7</b>	<b>1.6</b>

Note: Difference in percentage points based on rounded figures.

1. With growth in Ireland in 2015 computed using gross value added at constant prices excluding foreign-owned multinational enterprise dominated sectors.

2. Fiscal years starting in April.



# Confidence indicators point to pick-up, but they have become less reliable

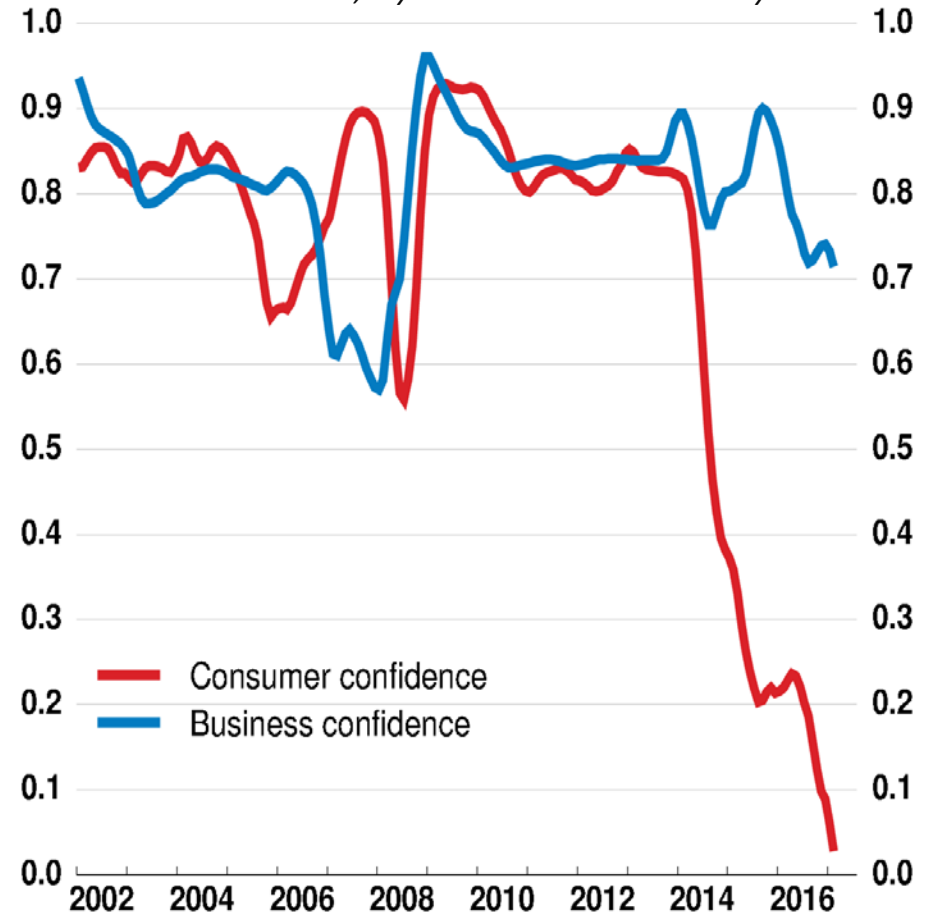
## Consumer and business confidence

*OECD and BRIICS, Index*



## Performance of confidence indicators

*OECD and BRIICS, 5-year correlation with activity*



Note: Confidence indices are GDP PPP weighted averages of individual country standardised series where long-term average = 100.

Consumer confidence correlation with global retail sales growth and business confidence with global industrial production growth.

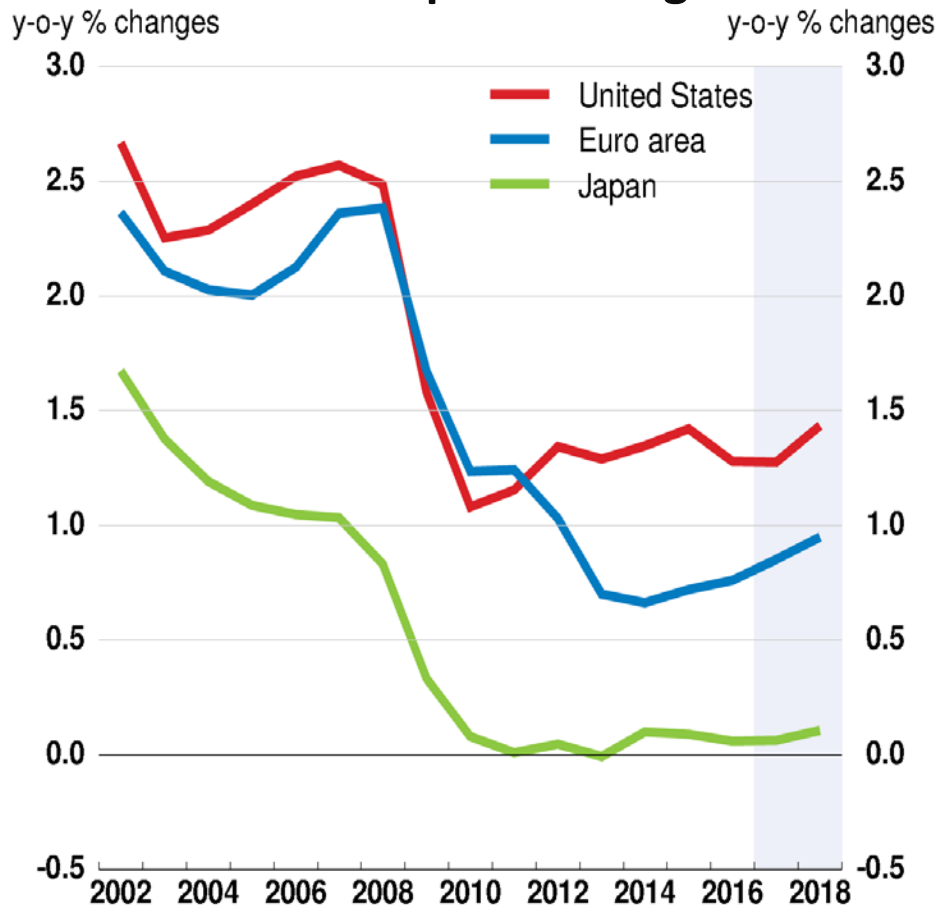
Source: OECD Main Economic Indicators database; and OECD calculations.



# Investment is increasing but capital stock is old

## Potential upside from technology upgrading

### Productive capital stock growth



### High tech products



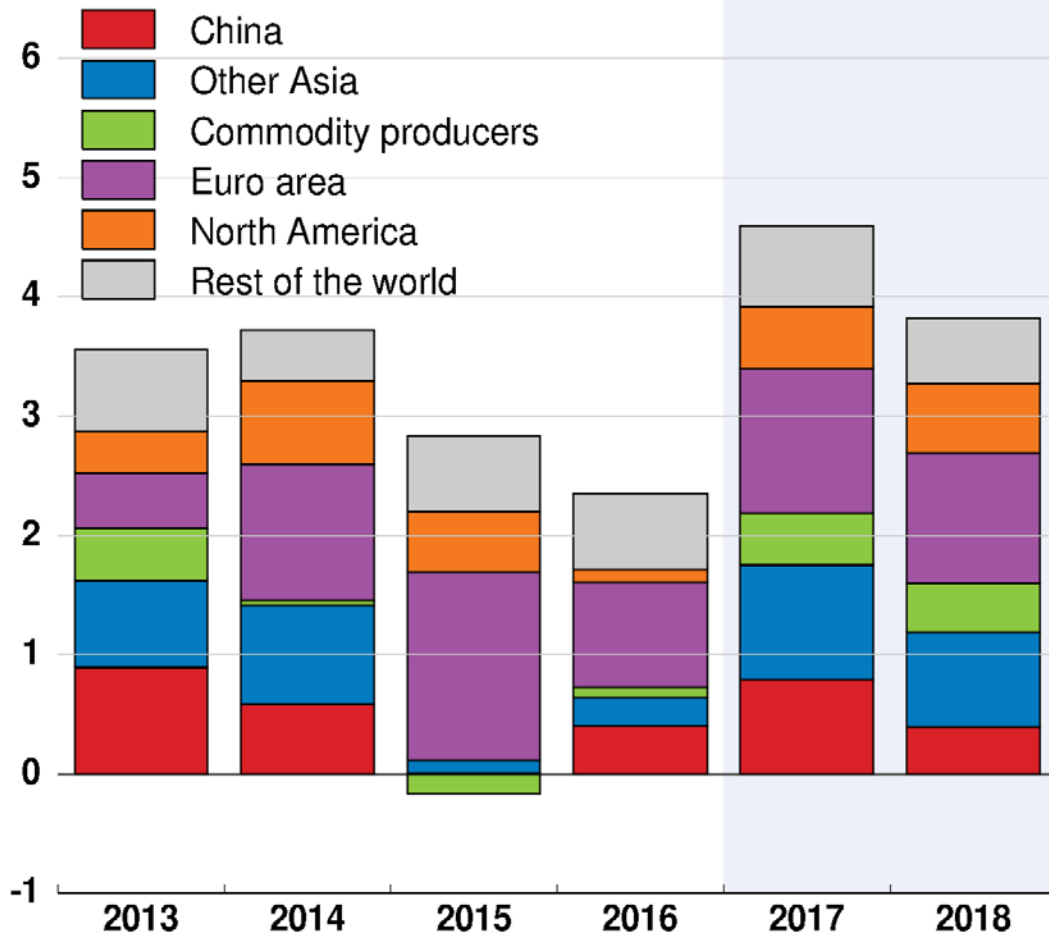
Note: Global semi-conductor billings in nominal US dollars. Major advanced computer and electronics output is a weighted average of production of computer and electronic products for the United States, output of computer, electronic and optical products for Germany, and production of information and communications electronics equipment plus electronic parts and devices for Japan.

Source: OECD June 2017 Economic Outlook database; World Semi-Conductor Statistics; Eurostat; Board of Governors of the Federal Reserve System; Japan Ministry of Economy, Trade and Industry; and OECD calculations.

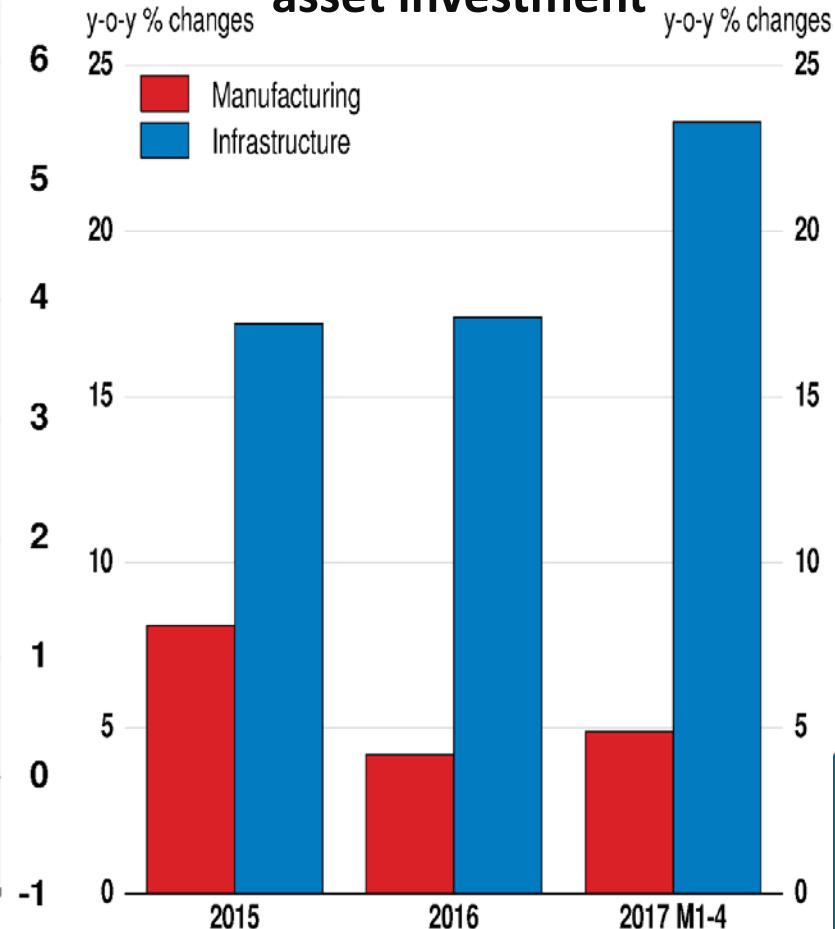


# Global trade has recovered recently with important support from stimulus in China

**Contributions to world trade growth**



**China nominal fixed asset investment**



Note: Commodity producers includes Argentina, Australia, Brazil, Chile, Colombia, Norway, New Zealand, Russia, Saudi Arabia, South Africa and other oil producing countries.

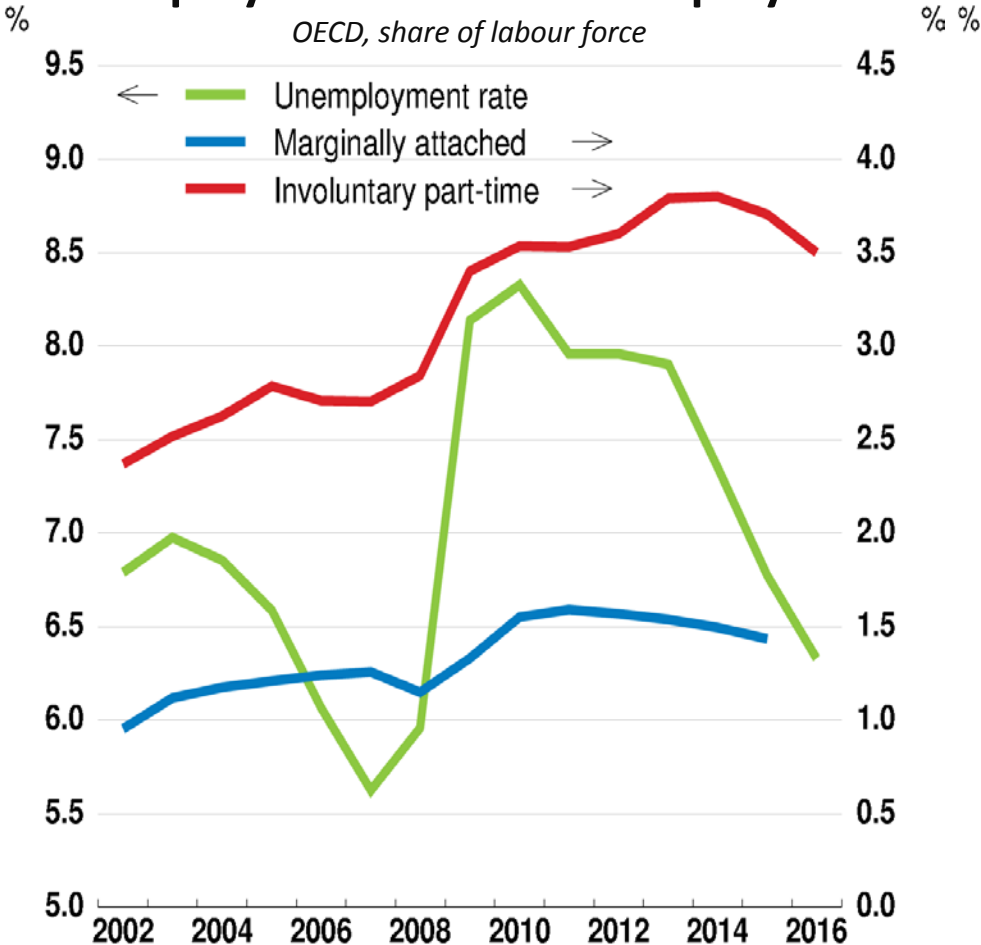
Source: OECD June 2017 Economic Outlook database; and National Bureau of Statistics of China.



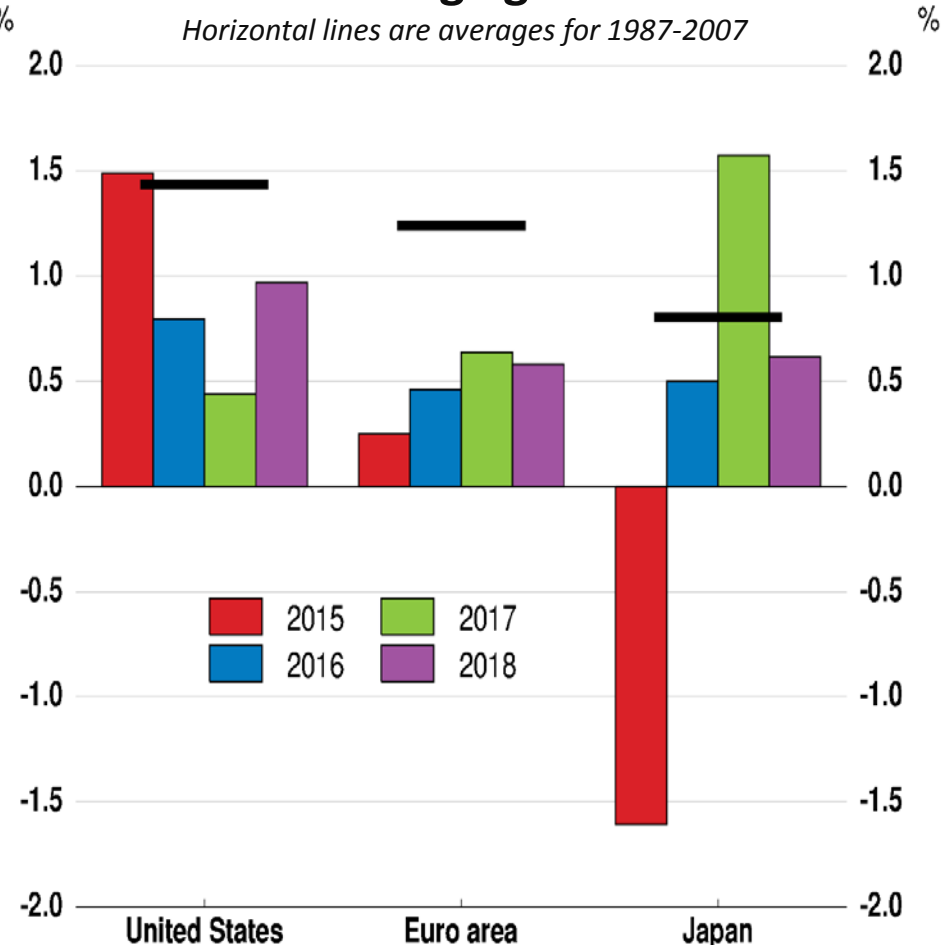


# Labour market recovery is incomplete and real wage growth remains sluggish

## Unemployment and underemployment



## Real wage growth



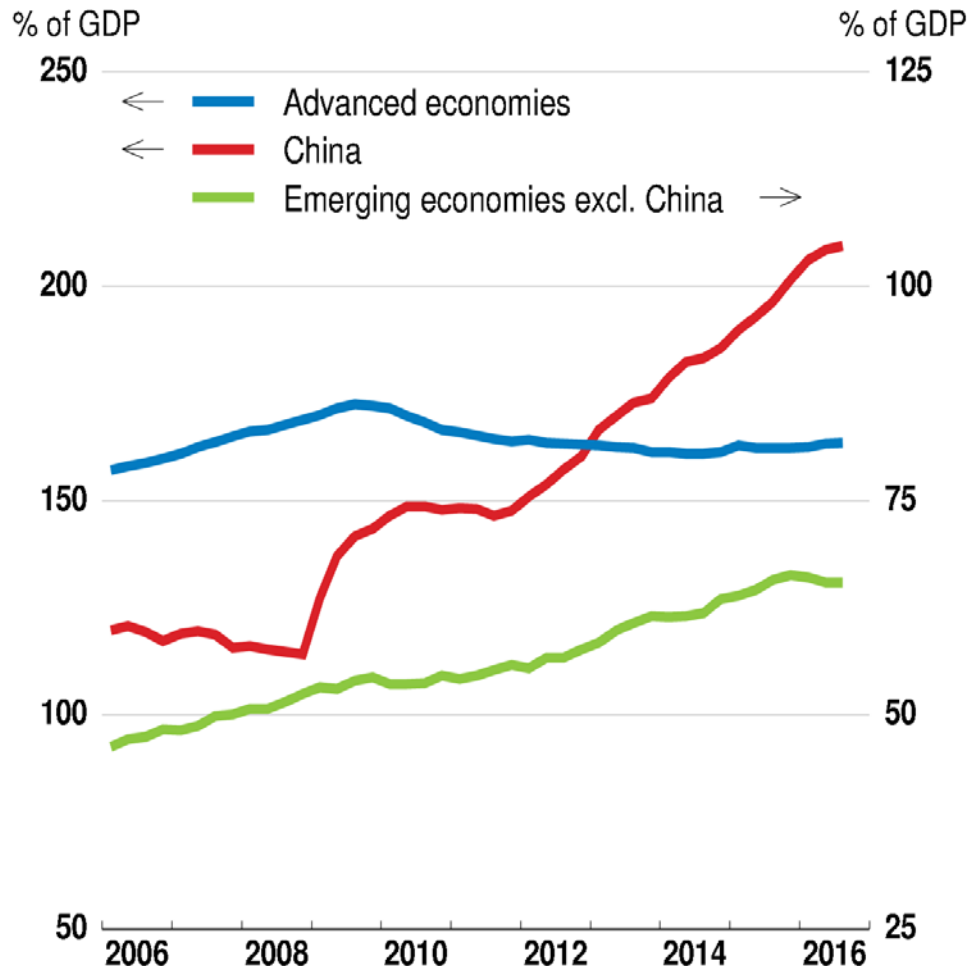
Note: Real wages measured as labour compensation per employee adjusted for the GDP deflator.

Source: OECD June 2017 Economic Outlook database; OECD Employment database; US Bureau of Labor Statistics; Eurostat; and Japan Statistics Bureau.

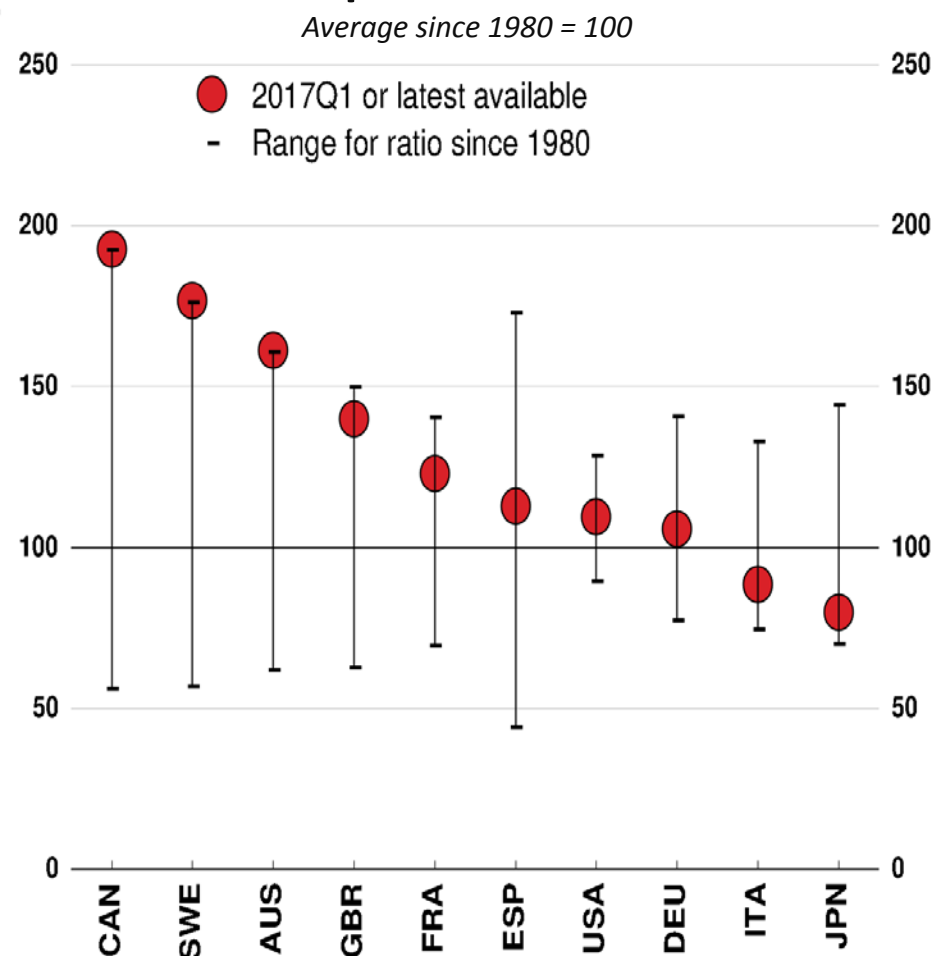


# Rising private credit in EMEs and housing market risks in advanced economies

## Private non-financial sector credit



## House price-to-rent ratio

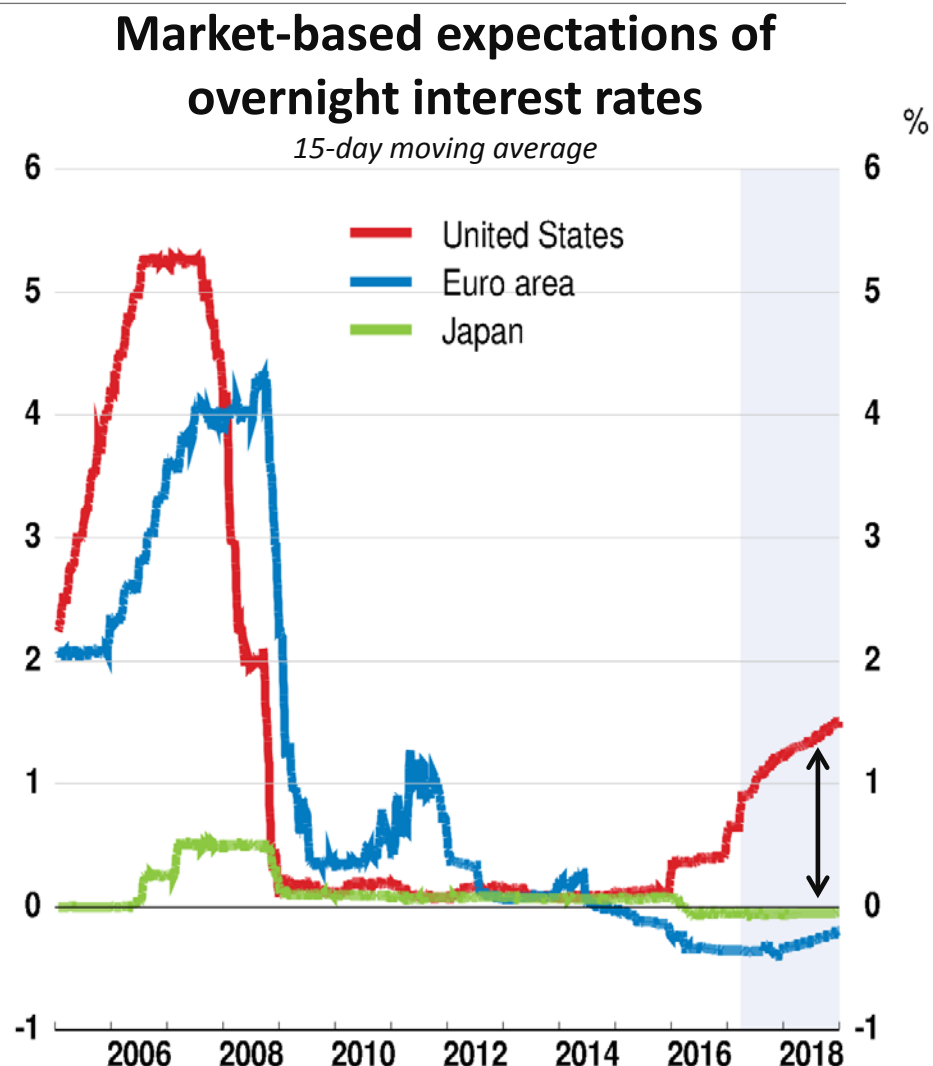
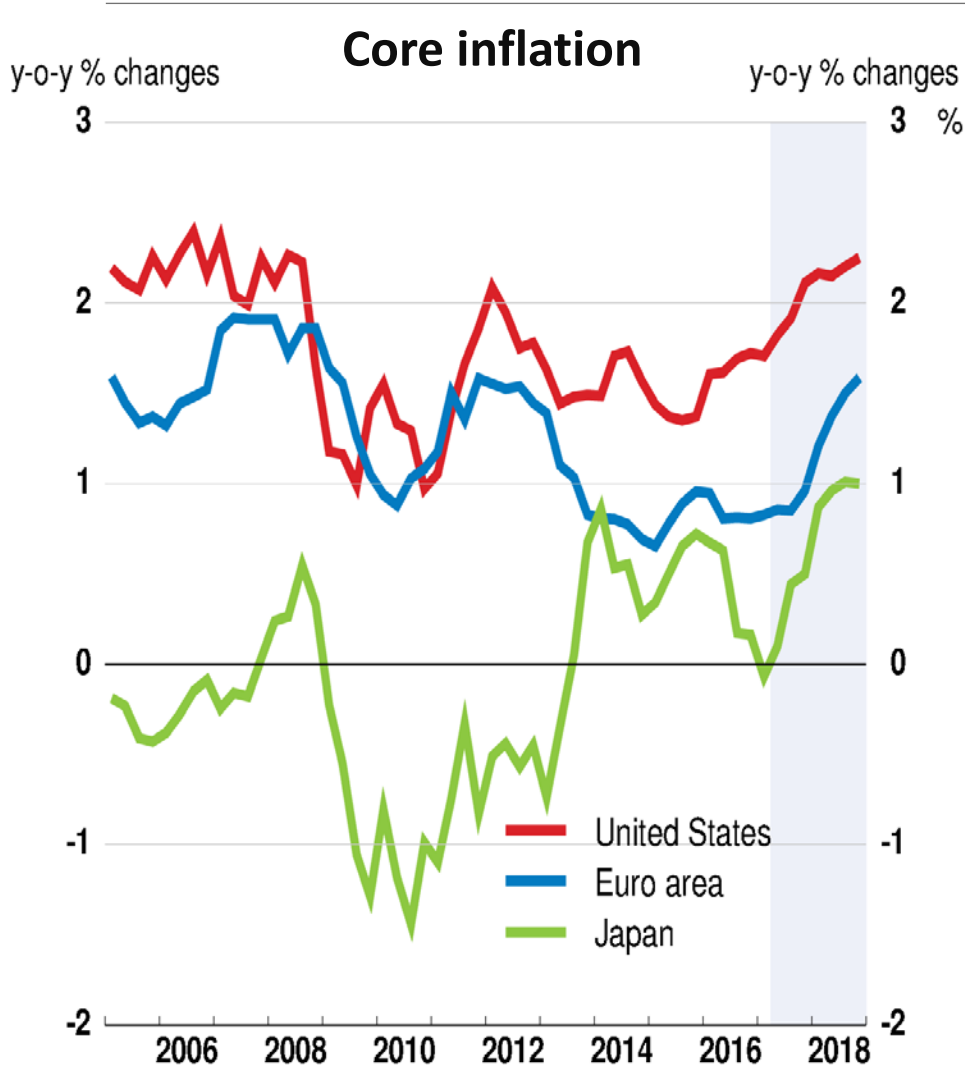


Note: EMEs excluding China is an unweighted average of ratios for Argentina, Brazil, Colombia, India, Indonesia, Mexico, Russia, Malaysia, South Africa and Turkey.

Source: BIS; OECD Analytical House Price database; and OECD calculations.



# Inflation generally below objectives; potential interest rate divergence creates financial risks



Note: Core inflation for Japan adjusted for the impact of consumption tax

Source: OECD June 2017 Economic Outlook database; Bloomberg; and OECD calculations.



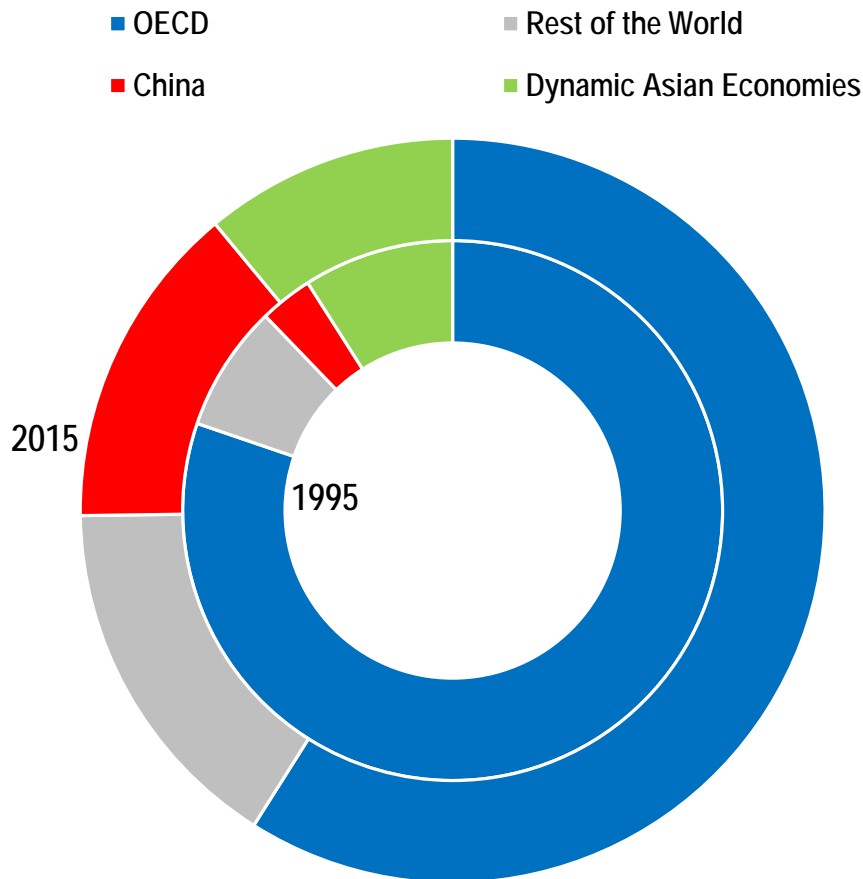
# **Diagnosing the challenge of structural trends**



# Trade specialisation and patterns have shifted

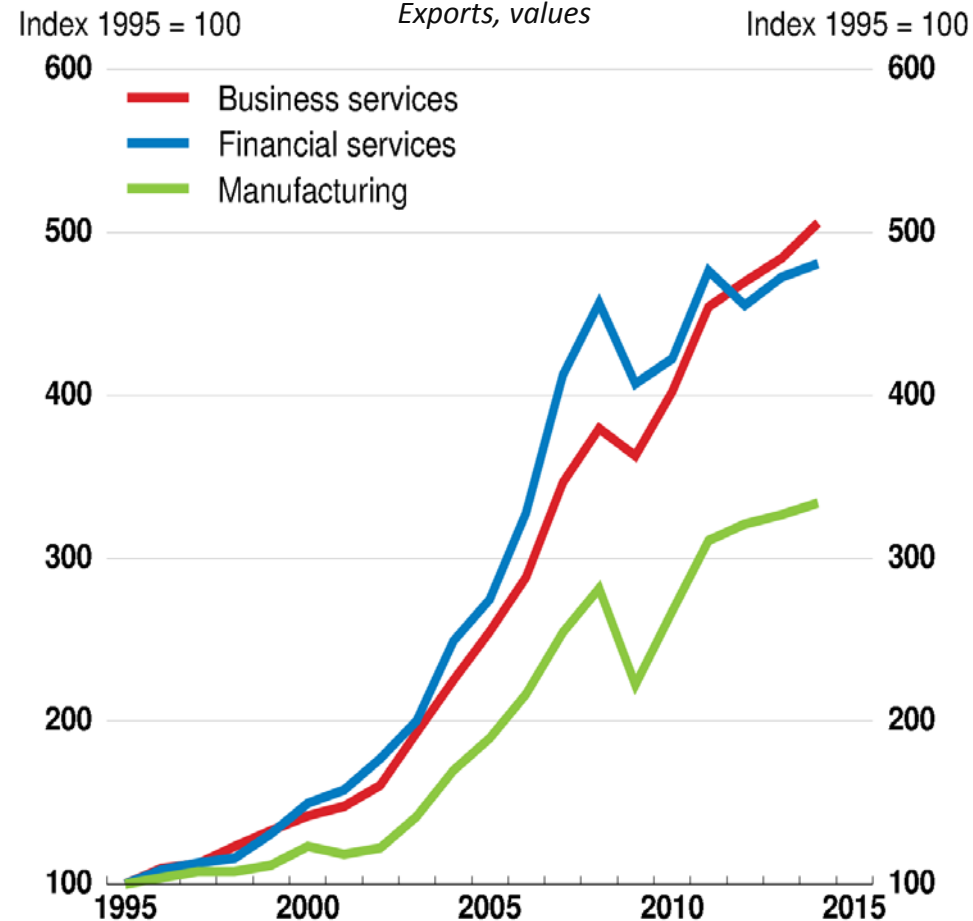
## World goods trade

*Share of world goods exports, volumes*



## World trade by type

*Exports, values*

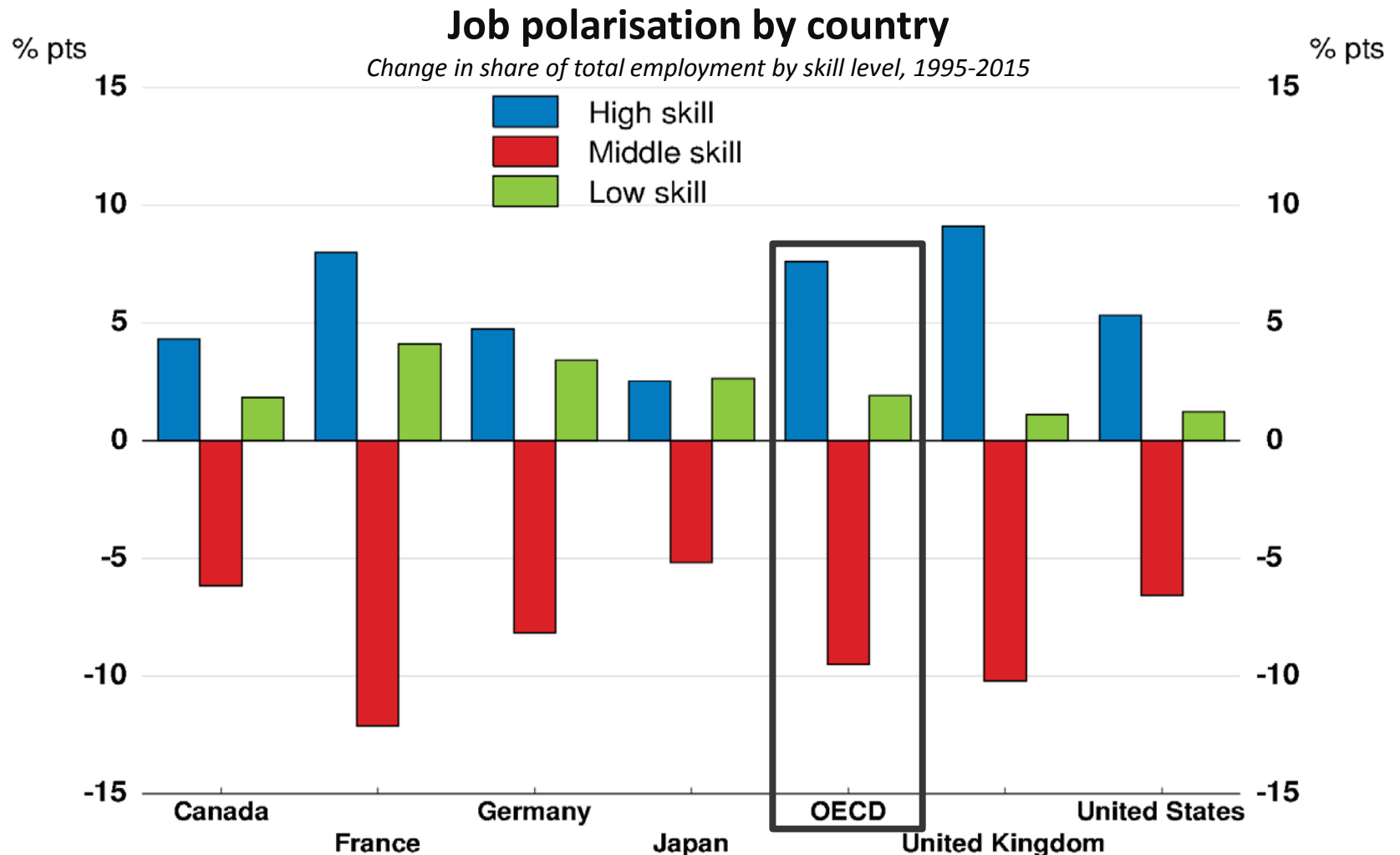


Note: LHS – Dynamic Asian Economies includes Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei and Hong Kong.  
 RHS – Business services includes R&D, ICT, real estate and other business activities. Financial services includes financial intermediation, insurance, pension funding and other financial activities.

Source: OECD-WTO Trade in Value Added (TiVA) database; UN Comtrade database; and OECD calculations.



# Job losses have centred on people with mid-level skills

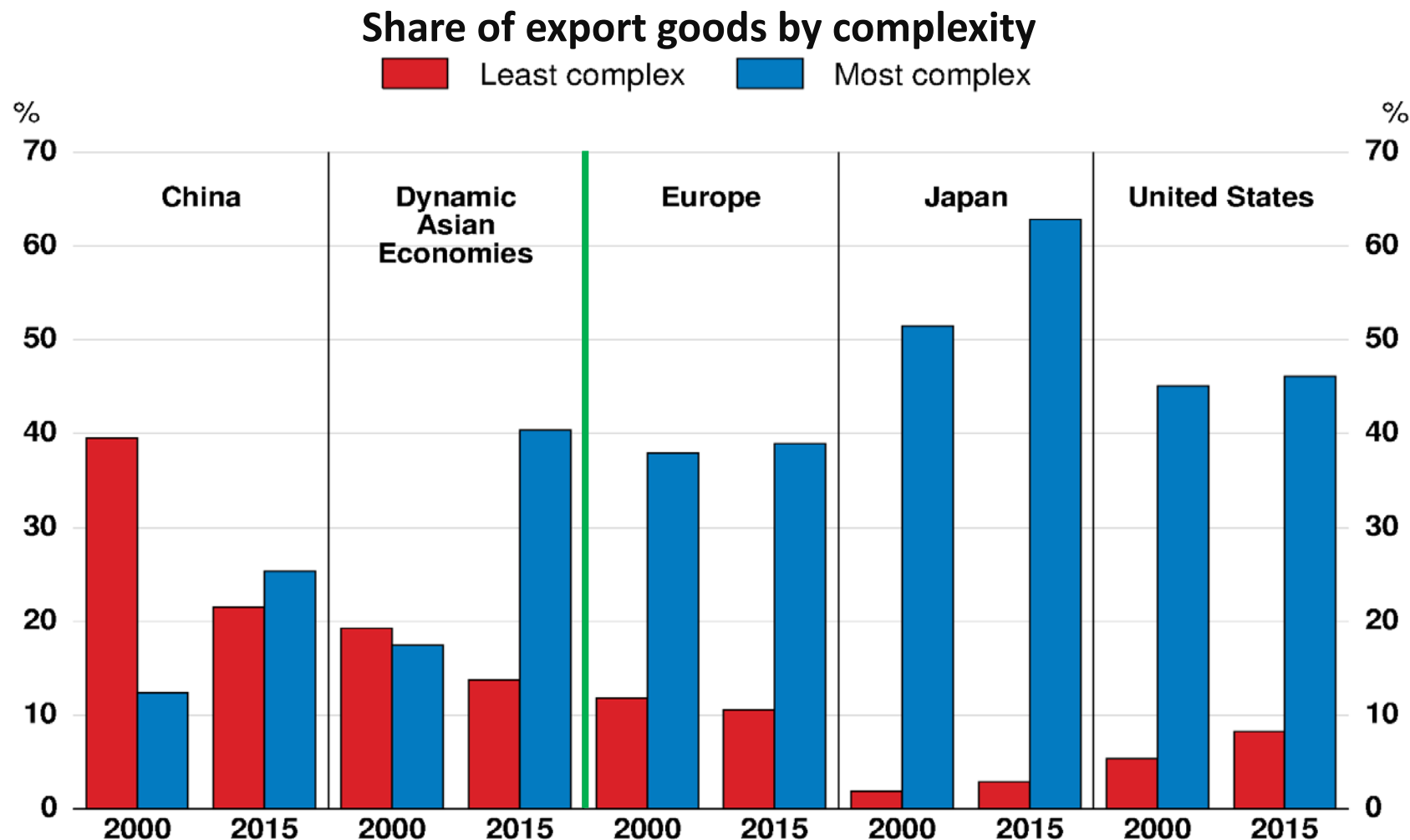


Note: OECD is the unweighted average of 24 countries. For Japan 1995-2010.

Source: OECD Employment Outlook 2017; European Union Labour Force Survey; Labour force surveys for Canada, Japan and the United States; and OECD calculations.



# Advanced economies have moved up the value chain, but EMEs are moving up too



Note: In nominal terms. Least complex is the 1<sup>st</sup> quartile of products by complexity (e.g. crayons), most complex is the 4<sup>th</sup> quartile (e.g. medical equipment), excluding major commodities. Dynamic Asian Economies includes Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei and Hong Kong. Europe is the unweighted average of the Czech Republic, France, Germany, Ireland, Italy, Poland, Portugal and the UK.

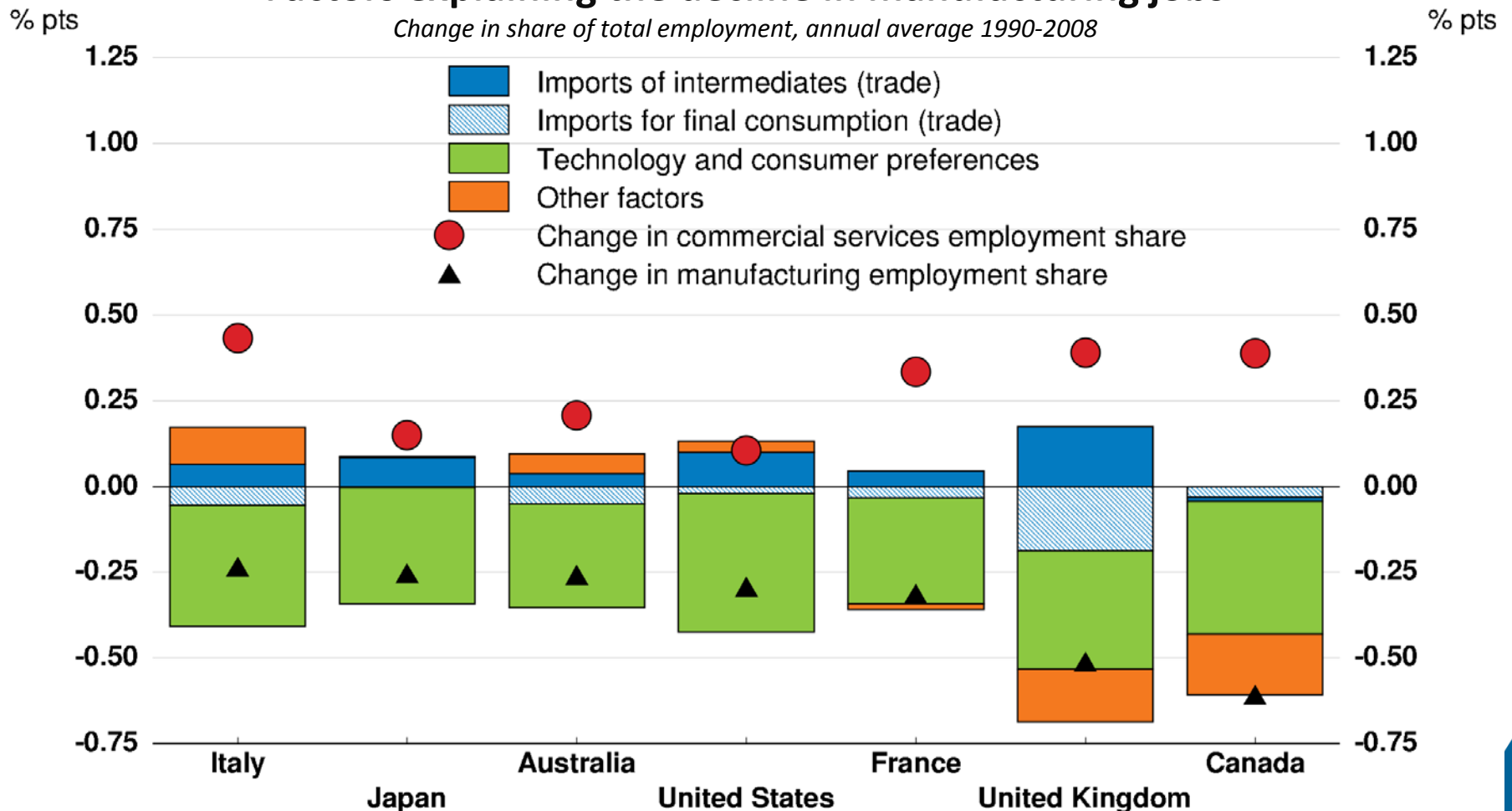
Source: UN Comtrade database; and OECD calculations.



# Manufacturing job losses and role for Technology & Consumer Preferences vs Trade

## Factors explaining the decline in manufacturing jobs

*Change in share of total employment, annual average 1990-2008*



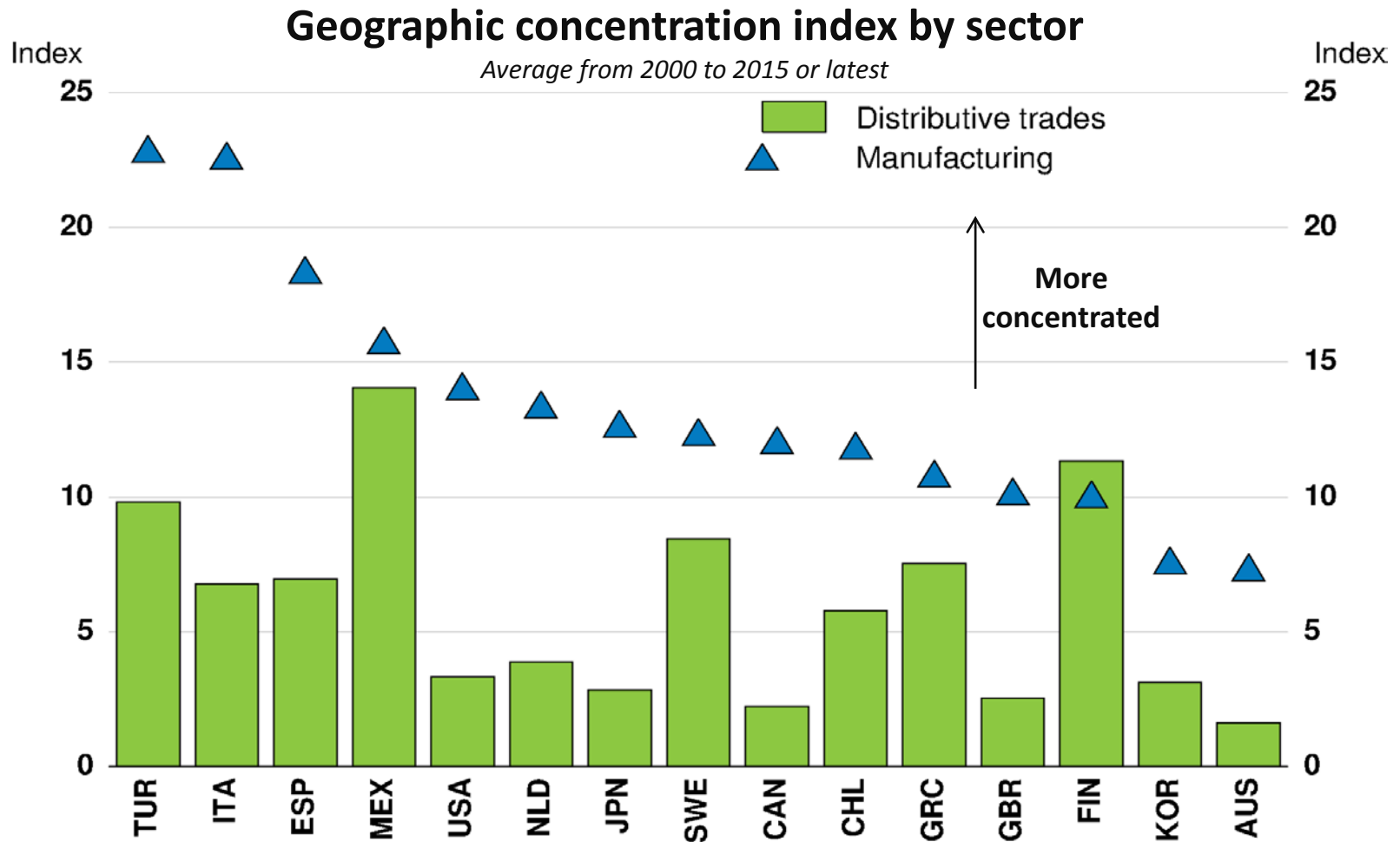
Note: Decomposition based on regression estimation. Each factor is based on the change over the period. Technology and consumer preferences include ICT and machinery investment, changes in the manufacturing consumption share and time specific effects.

Source: OECD Economic Outlook database; STAN database; and OECD calculations.





# Decline in manufacturing matters because activity is regionally concentrated

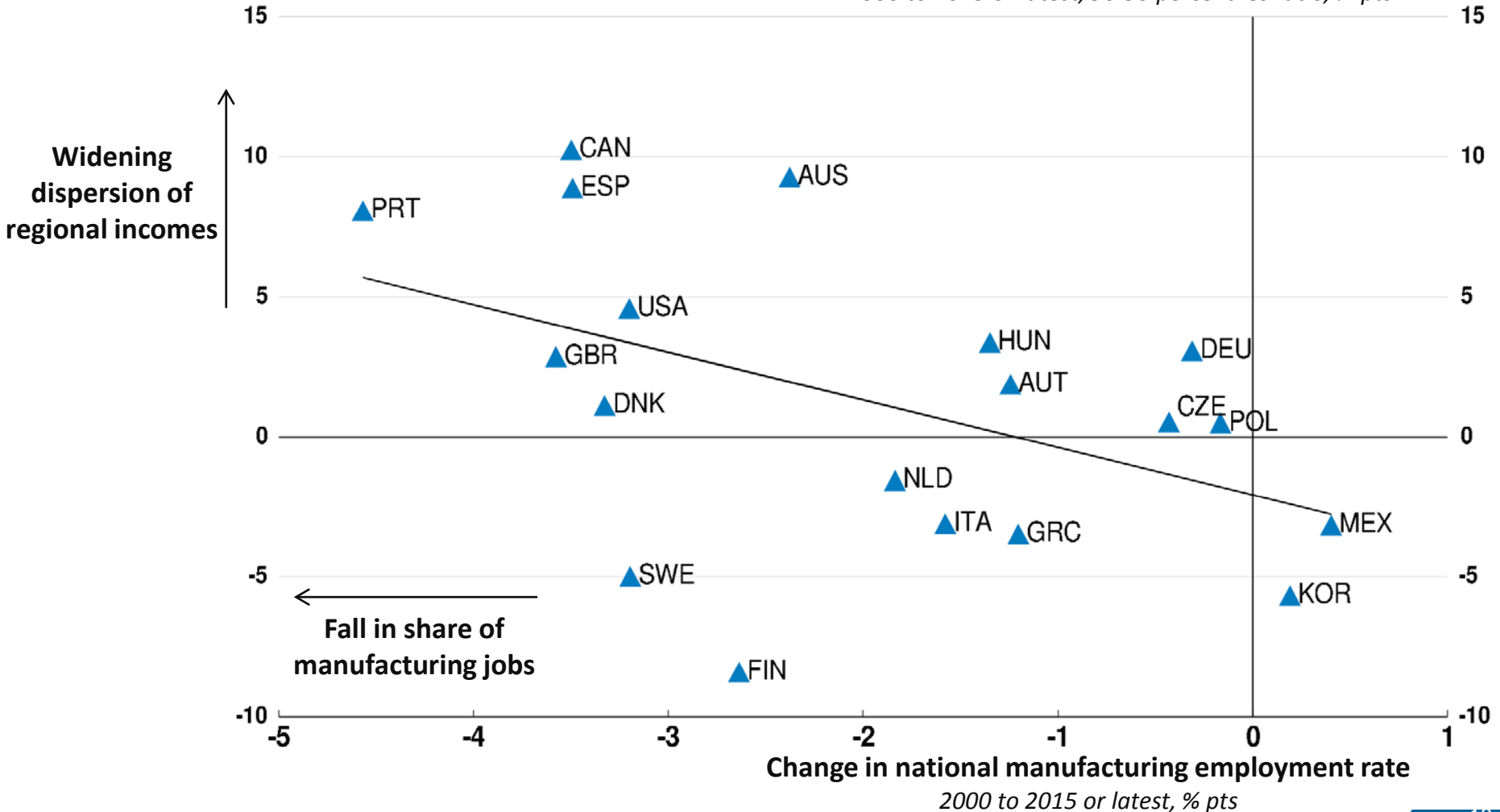


Note: "Distributive trades" includes distributive trade, repairs, transportation and storage, accommodation and food service activities. Index measures the extent to which employment is concentrated in particular regions, varying between 0 (no concentration, where all regions of a country have the same manufacturing employment rate) and 100 (maximum concentration, where all manufacturing employment is concentrated in the smallest region). The index incorporates the size of the region and is based on OECD (2003) "Geographic Concentration and Territorial Disparity in OECD Countries". Source: OECD Regional database; and OECD calculations.



# Countries with larger falls in manufacturing jobs have increased regional inequality

Change in average income inequality across regions  
2000 to 2015 or latest, 90:50 percentiles ratio, % pts





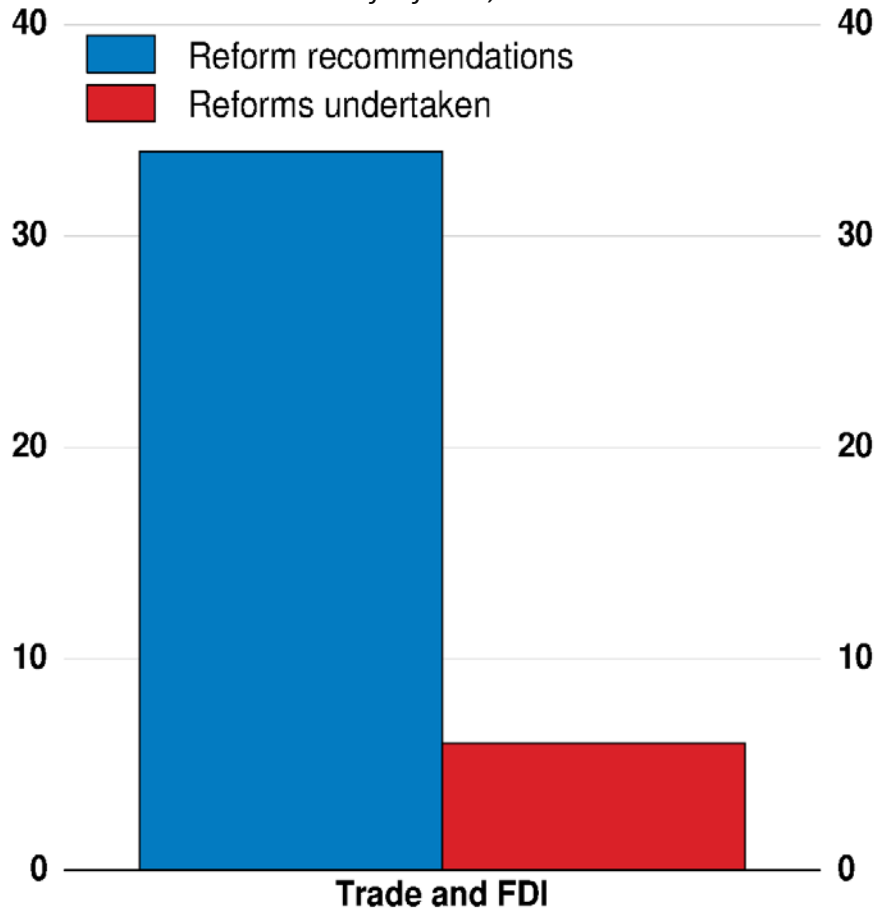
**An integrated policy approach  
is needed to respond to  
structural trends and make  
globalisation work for all**



# Make the international system work better, and create a more level playing field

## Actions in response to OECD *Going for Growth* recommendations

*Number of reforms, 2015-16*



Note: includes all OECD and BRIICS countries, the EU and Colombia.

Source: OECD *Going for Growth* 2017

## Actions to improve the international environment:

- Pursue open markets for cross-border trade and investment
- Preserve institutions and standards, such as for labour and environmental protection
- Promote multilateral cooperation, e.g. on tax base erosion and profit shifting and competition policy
- Combat corruption, illicit trade and counterfeiting

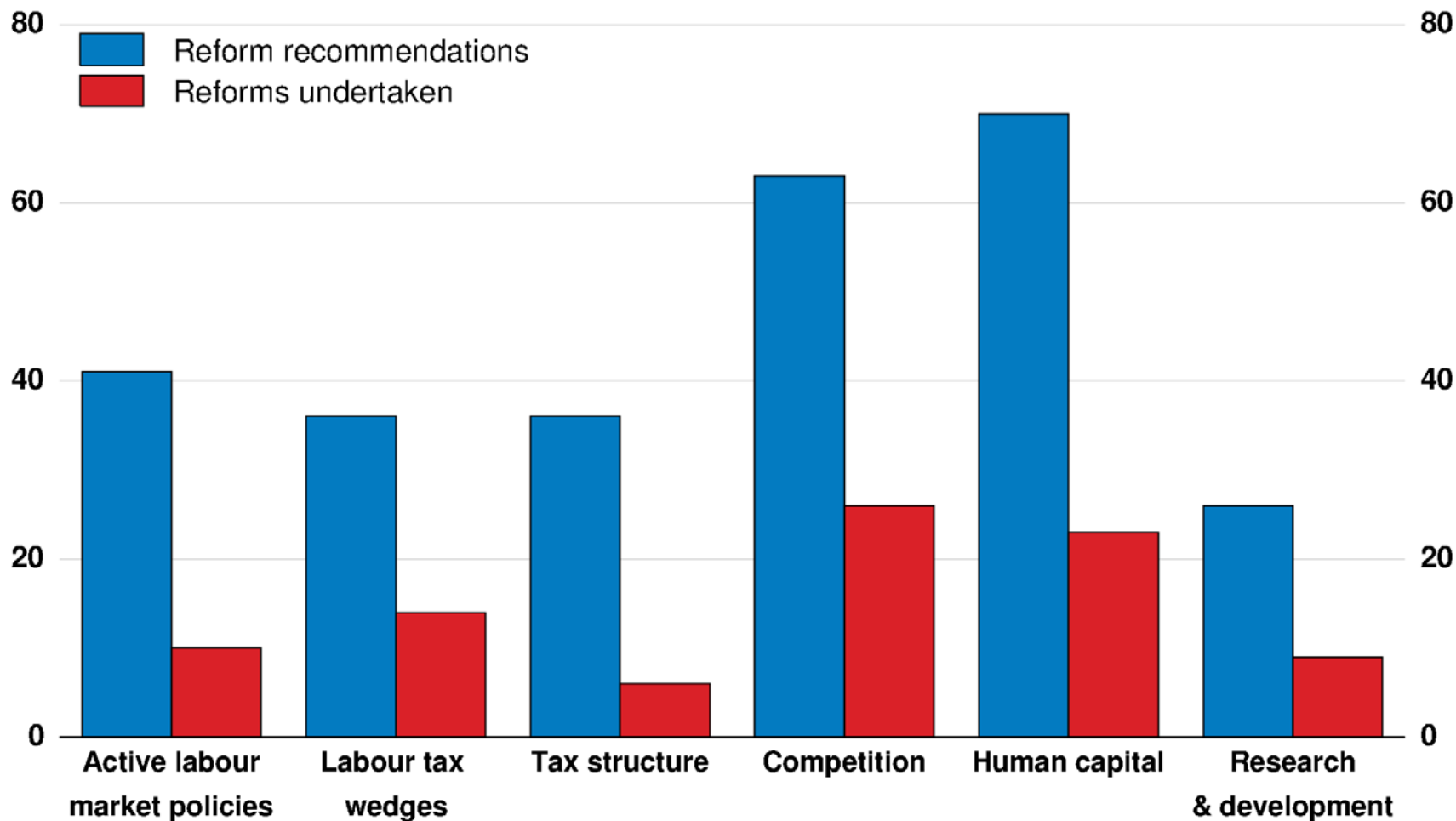


# Implement domestic reform packages to strengthen inclusive growth

## Actions in response to OECD *Going for Growth* recommendations

Number of reforms, 2015-16

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Note: includes all OECD and BRIICS countries, the EU and Colombia.

Source: OECD *Going for Growth* 2017



# Help people and displaced workers to adapt and take new opportunities

## **Countries with OECD *Going for Growth* reform priority**

### **Help laid-off workers to find a new job**

**Increase the scope and efficiency of active labour market policies**

ARG ESP EST GBR GRC ISR ITA JPN  
LTU LUX LVA NLD SVN SVK USA ZAF

**Boost job creation by reducing the tax wedge on low-skilled workers**

BEL DEU ESP EST HUN  
ITA LVA NLD POL TUR

### **Better prepare people for work**

**Expand and improve vocational training and education**

ARG BRA CHN DNK ESP EST FRA  
GBR GRC IND POL PRT TUR ZAF

**Allocate education resources more equitably**

CRI CZE DEU DNK FRA HUN  
NZL POL PRT SWE USA



# Act to strengthen inclusive growth and make globalisation work for all

